Exhibit No. 5
Date 2-13-09
Bill No.

F.H. STOLTZE LAND & LUMBER COMPANY

Lumber Manufacturers
Box 1429 Columbia Falls, MT 59912
Phone (406) 892-7005 Fax (406) 892-1612
www.stoltzelumber.com

February 13, 2009

Testimony to the Joint Select Committee on Reappraisal
Senator Kelly Gebhardt, Chairman

RE: Forestland taxation reappraisal 2009

Mr. Chairman:

Please accept the following comments regarding the 2009 forestland tax reappraisal on behalf of F.H. Stoltze Land & Lumber Company, located in Columbia Falls, MT. Stoltze is a family owned forest products company that has been operating in Montana continuously since 1912. We own and operate a sawmill in Columbia Falls and own and manage about 38,000 acres of forestland in northwest Montana. Our forestland ownership has been steadily growing for the last 50 years. These lands have been purchased for the primary purpose of growing and harvesting trees in a long term, economically, socially and environmentally sustainable manner. For a landowner such as us, whose primary motivation for owning land is for long term timber production, the issue of property taxes is extremely important.

Owning and managing land for timber production is unlike any other type of investment. In Montana forests, the growing rotation from seedling to quality sawlog is at least 70 years. Not unlike other agriculture, cash flow throughout this rotation is mostly negative with hopefully a positive income stream at the time of harvest. The primary difference between forest management and agriculture is that the exposure to risk before a return on investment on agriculture may be 6 months or a year, in forestry in Montana that return is 70 years. Throughout that 70 year period, risk of lost investment is very high, fire, insect and disease, animal damage, drought, flood, loss of markets, any number of things that are out of our control could eliminate or significantly delay any future income.

Managing costs throughout the rotation period is essential to the success of the long term investment in timberland. While the current timber tax rates, when looked at on a per acre basis per year, may seem almost insignificant to some, these annual recurring costs are often pivotal in the decision making process of a forestland owner to continue to own and manage lands as forestlands or change that land use to something else. You may hear that "Montana timber tax rates are lower than anywhere else in the country", however, I would argue that due to low growth rates and high risk you would be hard pressed to find a more risky or uncertain land use investment than long term sustainable timber management in Montana right now.

Exhibit No. 6
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We feel strongly that a forest productivity based valuation model is the most fair and equitable method for assessing forestland valuation. That being said, we have significant concerns with the 2009 reappraisal process.

Our first concern is the lack of involvement of the forest landowners in the reappraisal process. As has been stated earlier, this entire process has historically been open and cooperative, both in the formation of the process and implementation of reappraisal cycles. The same can not be said for the 2009 reappraisal. It is important to have third party review of the raw data for both income and costs that went into the calculation of both the stumpage value and capitalization rate. We feel that an advisory committee including representatives of the forest products industry and private landowners would be valuable to the Department of Revenue both as validation of data and assistance in resolving upcoming challenges. Neighboring states like Idaho work hand in hand with forest landowners and that seems to make a significant difference in the success of those programs.

We are concerned that the current method of calculating stumpage values using DNRC timber sale information may not be returning accurate valuation information. DNRC timber sales often have attributes with respect to timber size, quality, volume per acre, operating conditions, security and proximity to market that are not directly comparable to other private timberlands. For example, the current stumpage value for Zone 1 is $338.93. This is the amount that a landowner would receive after all costs of logging and transportation to the mill are deducted. Given today's market conditions, this "stumpage" value is $75 to $100/mbf MORE than the delivered log prices being paid at most mills in the state! In comparison, the average stumpage value for timber sold on Flathead National Forest for the same time period was $108/mbf and the Kootenai was $142.00/mbf. We feel that alternate methods of determining an equitable stumpage value need to be explored.

The proposed 2009 capitalization rate is too low for practical use in valuing timberlands. Due to the long term nature of timberland investment, capitalization or discount rates for timberland investment decision making are generally in the 8% to 10% range. The return on investment for timberland is largely dictated by tree growth rates, which we generally have very little ability to influence! The current proposed 6.28% capitalization rate is tainted by artificially low national interest rates that have been manipulated by federal economic policy and are not necessarily reflective of prudent or sustainable economic investment activity.

The impact of this low capitalization rate on overall valuation is very significant. The capitalization rate dropped by over 25% in a five year period. At the same time, the increase in zone 1 stumpage value was 14% while it dropped by over 50% in other zones. The per acre productivity only increased 10-15% within classes; yet we still see an average of 43.4% increase in per acre value.

One option would be to continue to use the existing method of determining the capitalization rate, but establish a minimum capitalization rate of 8%. This would provide some insulation from economic forces that may not directly apply to timberland valuation. For example, using the 6.28% rate, the 2009 weighted average value per acre of all timberland is $729.36/ac, a 43.4% increase in value from 2003. Using an 8% capitalization rate would result in $573.46/ac or a 12.8% increase in average value. The 12.8% increase is more in line with the increase in stumpage value and the increase in productivity, which are the primary drivers of a forestland investment.

Lastly we are concerned that the annual yields for each productivity grade are too high. While we understand that these numbers represent the "potential" of the land to produce timber, due to a variety of regulatory and social limitations, a landowner is rarely, if ever, able to implement the level of silvicultural management that would be necessary to attain these productivity levels. All the more reason that stumpage values, costs and capitalization rates need to be reflective of over all averages in the market rather than "ideal conditions".

We appreciate the opportunity this committee has allowed to provide our perspective on the 2009 reappraisal of forestland. We feel that the benefits of privately owned working forest reach far beyond the landowner's boundaries and would hope that we can find solutions to keep these lands as working forestlands.

Sincerely,

Charles W. Roady

Charles W. Roady
Vice President and General Manager